



**U.S. Department of Agriculture**



**Office of Inspector General  
Western Region**

# **Audit Report**

**Natural Resources Conservation Service  
Farm and Ranch Lands Protection Program  
in Alabama**

**Report No. 10099-5-SF  
September 2006**



UNITED STATES DEPARTMENT OF AGRICULTURE  
OFFICE OF INSPECTOR GENERAL  
Washington D.C. 20250



SEP 05 2006

REPLY TO

ATTN OF: 10099-5-SF

TO: Arlen Lancaster  
Chief  
Natural Resources Conservation Service

ATTN: Dan Runnels  
Director  
Operations Management and Oversight Division

FROM: Robert W. Young /s/  
Assistant Inspector General  
for Audit

SUBJECT: Farm and Ranch Lands Protection Program in Alabama

This report presents the result of our audit of the Natural Resources Conservation Service's Farm and Ranch Lands Protection Program in Alabama. Your August 23, 2006, response to the draft report is included as exhibit B. Excerpts from your response and the Office of Inspector General's position have been incorporated into the relevant sections of the audit report.

Based on your written response, we accept your management decision on all the audit recommendations. Please follow your internal agency procedures in forwarding final action correspondence to the Office of the Chief Financial Officer.

We appreciate the cooperation and assistance given by your staff during the audit.

# ***Executive Summary***

## ***The Trust Did Not Adhere to FRPP Rules and Regulations***

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### **Results in Brief**

In September 2005, the Office of Inspector General (OIG) initiated an audit of the Chattowah Open Land Trust's (d/b/a Alabama Land Trust; hereinafter referred to as the trust) operation of the Farm and Ranch Lands Protection Program (FRPP) in Alabama. This was in response to a request from the Natural Resources Conservation Service's (NRCS) national office. The request questioned whether the trust was meeting the program's matching fund provisions that required the trust to contribute its own cash toward the purchase of conservation easements. Accordingly, we reviewed the trust's program activities to determine if the matching fund requirements were met, and if the appraisals used to obtain NRCS matching funds were completed in accordance with the cooperative agreement and generally accepted appraisal standards.

The trust began administering FRPP in Alabama under the FY 2003 cooperative agreement, dated July 17, 2003. Under the cooperative agreement, the Federal share of any easement purchase is limited to 50 percent of the appraised fair market value (FMV), with the trust required to contribute the remaining 50 percent. The agreement also allows the trust to include landowner donations up to 25 percent of the easement's FMV as part of the cooperating entity's matching contribution. When that occurs, the trust is required to provide the remaining 25 percent to the landowner, in cash, at closing. However, at the February 2004 closing of the first conservation easement acquired under this cooperative agreement, NRCS Alabama State Office (SO) noted that the trust failed to pay its 25-percent share in cash; instead, the trust charged the landowner an "easement fee" equal to 25 percent of the easement's appraised FMV.

As a result, in April 2004 NRCS provided additional direction to the trust on FRPP's matching fund provisions and required the trust to certify in writing that it had used its own funds to pay for its share of the easement purchase price rather than obtaining those funds from the landowners. Despite these actions, we determined that the trust appeared to have circumvented NRCS controls by:

- Continuing prior arrangements with the landowners that their continued participation was contingent on donating 25 percent of the easement value at closing and on donating another 25 percent after closing without disclosing these arrangements to NRCS.

- Providing signed certifications to NRCS for each easement transactions stating that its matching funds came from the trust's own cash and not from landowner donations.
- Having settlement documents show that the trust had paid the matching funds with its own cash, while not disclosing the after-closing donations of landowners repaying the trust for its matching fund contributions.
- Pursuing with the landowners the additional 25 percent of the easement value after the closing.

According to FRPP regulations<sup>1</sup>, “a scheme or device includes, but is not limited to, coercion, fraud, misrepresentation, depriving any other person or entity of payments for easements for the purpose of obtaining a payment to which a person would otherwise not be entitled.”

In our opinion, the trust's actions constituted a scheme or device for the purposes of obtaining NRCS approval of the 2003 easement purchases, receiving Federal matching funds equal to 50 percent of the easements' FMV, and obtaining title to four easements with little or no financial contribution. In three of the four easement transactions processed after receiving NRCS direction, the trust was able to recover \$202,067 of its required matching funds from the landowners after closing. The fourth landowner refused to repay the trust despite receiving verbal threats from the trust's program director. If the trust had fully disclosed the total donations made by the landowners, NRCS payments for the easement transactions would have been significantly reduced.<sup>2</sup>

We also determined that the trust did not provide NRCS with appraisals that complied with the requirements established in the cooperative agreement. We found serious deficiencies in all five appraisals provided to NRCS for the FY 2003 easement purchases as follows:

- appraisal methodologies were incorrect;
- appraisal assumptions were unsupported and inaccurate;
- appraisers performing the appraisals were not qualified;
- the type of appraisal reports was incorrect;

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<sup>1</sup> 7 CFR part 1491.32, effective May 16, 2003.

<sup>2</sup> According to FRPP regulations, if a landowner chooses to donate 50 percent of the easement's FMV, NRCS and the cooperating entity each contribute 50 percent of the easement's purchase prices (i.e., the easement's FMV less landowner donation).

- administrative reviews of appraisals were ineffective; and
- technical reviews of appraisals were non-existent.

We concluded that the appraisals used to obtain NRCS matching funds were unreliable and may have potentially overstated easement values.

In summary, we believe that the trust's circumvention of NRCS' directions on matching fund provisions and its breach of the cooperative agreement requirement regarding easement appraisals are sufficient grounds for NRCS to terminate the FY 2004 cooperative agreement with the trust and deobligate all the FY 2004 funds for that agreement. Further legal remedies against the trust for the FY 2003 transactions should also be pursued.

### **Recommendations In Brief**

We recommend that NRCS determine whether the trust was involved in a scheme or device to circumvent FRPP program goals and NRCS directions. If so, NRCS should terminate its FY 2004 cooperative agreement with the trust and deobligate \$1,021,438, the amount authorized for the program under the trust's FY 2004 cooperative agreement. We also recommend that NRCS consult with the Office of the General Counsel (OGC) for other available legal remedies to address the serious deficiencies in the appraisals used to support NRCS' reimbursements under the FY 2003 cooperative agreement.

### **Agency Response**

In its August 23, 2006, written response to the draft report, NRCS agreed with the report's findings and recommendations. NRCS agreed to terminate the FY 2004 cooperative agreement with the trust and to deobligate \$1,021,438 authorized for the Alabama FRPP under the FY 2004 cooperative agreement with the Trust.

NRCS is also consulting with OGC to consider legal remedies available concerning the trust's material noncompliance with the appraisal requirements for the FY 2003 easement transactions.

### **OIG Position**

Based on NRCS written response, we accept NRCS management decision on all the audit recommendations.

### ***Abbreviations Used in This Report***

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ALT	Alabama Land Trust
AREAB	Alabama Real Estate Appraisers Board
CFR	Code of Federal Regulations
COLT	Chattowah Open Land Trust
FMV	Fair Market Value
FRPP	Farm and Ranch Lands Protection Program
FY	Fiscal Year
IRS	Internal Revenue Service
NO	National Office
NRCS	Natural Resources Conservation Service
OGC	Office of the General Counsel
OIG	Office of Inspector General
SO	State Office
UASFLA	Uniform Appraisal Standards for Federal Land Acquisitions
USDA	U. S. Department of Agriculture
USPAP	Uniform Standards for Professional Appraisal Practice

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# ***Background and Objectives***

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## **Background**

The Farm and Ranch Lands Protection Program (FRPP) was authorized by the Food Security Act of 1985, as amended, and reauthorized in the Farm Security and Rural Investment Act of 2002 (Farm Bill). The Secretary of Agriculture delegated the authority for the program to the Chief of Natural Resources Conservation Service (NRCS). NRCS partners with States, Tribes, local governments and non-profit organizations to purchase conservation easements for the purpose of protecting topsoil by limiting non-agricultural use of the land.

NRCS requests proposals from Federally-recognized organizations to cooperate in the acquisition of conservation easements on farms and ranches. Once a cooperating entity, also known as a cooperator, is selected, the NRCS State Conservationist enters into a cooperative agreement with, and obligates money to, the cooperating entity. The cooperating entity is responsible for determining the fair market value (FMV) of the easements and notifying landowners of that value, ascertained using appraisals that conform to Uniform Standards of Professional Appraisal Practices (USPAP) or the Uniform Appraisal Standards for Federal Land Acquisitions (UASFLA). The entity is also responsible for conducting administrative and technical reviews of the completed appraisal reports to ensure they comply with appraisal standards and NRCS easement valuation requirements. The cooperating entity receives title to the conservation easement, while NRCS retains a contingent right to protect the Federal Government's investment. The cooperating entity holds, monitors, and enforces the conservation easement.

The Federal share of any easement purchase is limited to 50 percent of the appraised FMV, with the cooperating entity required to contribute the remaining 50 percent.<sup>3</sup> FRPP rules also allow cooperating entities to include landowner donations up to 25 percent of the easement's FMV as part of the cooperating entity's matching contribution. When that occurs, the cooperating entity is required to provide the remaining 25 percent to the landowner, in cash, at closing. In the event that a landowner chooses to donate 50 percent of the easement's FMV, NRCS and the cooperating entity each contribute 50 percent of the easement's *purchase price* (i.e., the easement's FMV less landowner donation).

On July 17, 2003, the Alabama State NRCS Office (SO) signed a cooperative agreement with the Chattowah Open Land Trust (doing business as the Alabama Land Trust; hereinafter referred to as "the trust") to operate FRPP in Alabama. Under the FY 2003 cooperative agreement, NRCS obligated about \$1.2 million as part of its cost share on acquiring five easements. Under the FY 2004 cooperative agreement, the Alabama SO obligated

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<sup>3</sup> Cooperating entities can pay more than 50 percent of the easement's value if they choose, which proportionally reduces NRCS' payment.



another \$1 million to assist the trust acquire three additional easements. In both years, the trust was the only cooperating entity to participate in the Alabama program.<sup>4</sup> During the same period, NRCS obligated a total of approximately \$163 million for FRPP nationwide.

In June 2005, NRCS' national office (NO) requested that OIG determine whether the trust was "utilizing landowner contributions as part of their matching offer, in excess of that allowed." NRCS' request noted that for the first conservation easement purchase in FY 2003, the trust had not paid 25 percent of the easement's FMV. Instead, the easement had been purchased with a 50-percent contribution from NRCS (as allowed), a 25 percent donation from the landowner to the trust (as allowed), and an easement fee of 25 percent that the trust charged the landowner.

During our interviews with OGC, an OGC attorney stated that the lack of a vested financial interest raised questions about the trust's commitment to long-term conservation of agricultural land and its capability to acquire, manage, and enforce the easement and other interests in land. NRCS' NO reviewed the matter and determined that "the fee charged by [the trust] violated the statutory and regulatory requirements regarding a cooperating entity's matching contribution requirement." In April 2004, NRCS sent a letter informing the trust that it had violated the matching fund requirement, but took no action against the trust because the agency concluded the trust's actions were inadvertent, resulting from its misunderstanding of the matching fund provisions in the cooperative agreement.

## **Objectives**

Our objectives were to: (1) determine if the Chattowah Open Land Trust, doing business as the Alabama Land Trust, adhered to the program's matching fund requirements, and (2) determine if appraisals used to determine the FMV of the easement complied with the cooperative agreement and applicable laws and regulations. We also undertook to identify and report on any other issues that developed during the course of the review, but no such issues came to our attention.

To accomplish these objectives, between October 2005 and January 2006, we reviewed all five conservation easements acquisition under the FY 2003 cooperative agreement. We interviewed the executive director of Chattowah Open Land Trust and the program director of Alabama Land Trust. We also interviewed the five landowners from whom the easements were purchased. In addition, we performed fieldwork at NRCS' NO and NRCS' SO in Alabama. (See the "Scope and Methodology" section in this report for details.)

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<sup>4</sup> The Alabama Land Trust is a subsidiary of the Chattowah Open Land Trust, which operates in multiple States and, at the time of our audit, owned 145 easement in various States according to the trust's representative.

# ***Findings and Recommendations***

## ***Section 1. Program Integrity***

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### **Finding 1**

#### **Trust Circumvented Matching Fund Provisions and Violated Appraisal Requirements**

The trust did not comply with FRPP matching fund provisions and appraisal requirements. Despite written certifications to NRCS that its matching funds (25 percent of each easement's FMV) did not come from the landowners, the trust appeared to circumvent FRPP's matching fund requirements by arranging for landowners to repay its matching funds to the trust in the form of additional "donations" after closing and not disclosing this arrangement to NRCS. In addition, the trust abrogated its fiduciary responsibility by providing little or no oversight of the appraisal process, thereby allowing seriously deficient appraisals to be relied upon by NRCS. As a result, the trust had little or no vested financial interest in four of the five easements it acquired and received \$1 million in Federal matching funds based on inaccurate and potentially overstated appraisals.

#### **Trust Misrepresented and Circumvented FRPP Matching Fund Provisions**

In the FY 2003 cooperative agreement with NRCS, the trust agreed to contribute 50 percent of the FMV when purchasing five conservation easements from landowners. Furthermore, the trust told NRCS that each landowner had agreed to donate 25 percent of their easement's value, thereby reducing the trust's required contribution to the remaining 25 percent. However, we found the trust misrepresented the program's requirements to the landowners, telling each applicant that they were required to contribute 50 percent of their easement's appraised FMV to the trust as a condition for program enrollment. After being cautioned by NRCS that the trust was required to contribute its own funds to the easement purchases, the trust certified to NRCS in each of the four subsequent transactions that its required 25 percent share did not come from additional donations or contributions made by the landowners. But in three of the four easement transactions the trust completed after the NRCS warning, we found that it obtained additional donations equaling 25 percent of each easement's FMV from the landowners after closing.<sup>5</sup> These additional donations were not reported to NRCS and did not appear on the conservation easement settlement documentation. As a result, in four of the five easement transactions processed for the FY 2003

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<sup>5</sup> In the fourth case, the landowner refused to pay the trust after he learned that the trust's practice was contrary to the program regulations.

agreement, NRCS and the landowners each contributed 50 percent of the easement values, while the trust contributed little or nothing. The trust's use of supplemental landowner donations to eliminate its financial contribution to the easement purchases was contrary to FRPP regulations and the NRCS instructions, and appears to have been a circumvention of the FRPP's matching fund requirements.

#### FRPP Matching Fund Requirements Instructions Provided to the Trust

According to the FY 2003 cooperative agreement,<sup>6</sup> a landowner's donation up to 25 percent of the appraised FMV of the conservation easement may be considered part of the cooperating entity's matching contribution. Where a landowner's donation is considered as part of the entity's matching offer, the cooperating entity is required to contribute in cash, at least 25 percent of the appraised FMV of the conservation easement.

In July 2003, the Alabama SO entered into a cooperative agreement with the trust to acquire five FRPP conservation easements. The first easement acquired under this agreement was settled on February 24, 2004, and had an appraised FMV of about \$1.15 million. NRCS contributed half of the purchase price, or \$574,000. The trust was responsible for contributing the remaining 50 percent. Since the trust told NRCS the landowner had agreed to donate 25 percent of the easements value, the trust was required to pay the landowner the remaining 25 percent (\$287,000), in cash, at closing. However, NRCS staff attending the closing noticed that the trust failed to provide any cash to the landowner. Instead, settlement documents showed that the trust charged the landowner an "easement fee" equal to 25 percent of the easement's FMV, reducing the trust's payment to the landowner to zero.

Concerned by what appeared to be a violation of FRPP matching fund requirements, on March 3, 2004, the Alabama SO requested assistance from the agency's NO on the matter. On April 2, 2004, the NRCS NO sent a letter to the trust and informed it that "the fee charged by [the trust] violated the statutory and regulatory requirements regarding a cooperating entity's matching contribution requirement." NRCS took no action against the trust because the agency found the action to be inadvertent and resulting from the trust's misunderstanding of the matching fund provision in the cooperative agreement. The letter also warned that NRCS would not provide FRPP funds to the trust if it continued to acquire its matching funds from the landowners. The executive director of the trust told us that as soon as it knew that it could not charge the landowner an easement fee to offset its required matching fund, the board members of the Chattowah Open Land Trust made a commitment to provide 25 percent of each easement's appraised FMV, in cash, when it finalized the four remaining easement purchases.

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<sup>6</sup> Signed and dated by the executive director of the trust and the Alabama State Conservationist on July 17, 2003.

To further reiterate FRPP's matching fund requirements, NRCS also immediately developed a new form: NRCS CPA-230, Confirmation of Matching Funds. The form required cooperating entities and landowners participating in the program to certify that (1) the landowner was aware of the easement's value, (2) the landowner accepted the purchase price, (3) **the entity's share of matching funds did not come from additional donations, payments, loans, or fees made by or charged to the grantor (landowner).** The trust signed the NRCS CPA-230 certification for each of the four remaining easement transactions processed under the 2003 cooperative agreement. The trust's program director signed two of the forms and the conservation planner representing the trust signed the other two forms. All four certifications were signed after the trust's receipt of NRCS' April 2004 letter.

#### Trust Continued to Violate the Matching Funds Provision

Despite its written certification via the NRCS CPA-230 form to NRCS, our audit found that for three of the four easements closed after April 2004, the trust received a payment from landowners after closing for an amount equal to the matching funds paid by the trust at closing. Unbeknownst to NRCS, the trust had previously told each of the four landowners that they were required to donate 25 percent of their easement's value to the trust at closing, and donate another 25 percent of the easement's value to the trust after closing to ensure program eligibility. As a result of this arrangement, the trust violated NRCS regulations that required the cooperating entity's matching funds to come from sources other than the landowners, and received Federal matching funds exceeding amounts to which it was entitled.

We interviewed all five landowners to determine their understanding of the program's funding requirement as a FRPP participant. In our interviews, all the landowners stated prior to submitting their FRPP application, they were verbally told by the program director of the trust that they had to donate 25 percent of the easement's FMV at closing and agree to give the trust another 25 percent of the easement's value after closing to ensure their program eligibility.

After receiving the April 2004 letter from NRCS, the trust acquired four easements under the FY 2003 cooperative agreement. The trust certified to NRCS that it contributed its required 25-percent share using funds from sources other than the landowners when, in fact, the trust had already arranged to recoup its matching funds from the landowners after closing. In three of the four cases, the landowner complied with the term of the verbal arrangement, writing checks to the trust after closing in the exact amount of

the trust's required 25-percent share.<sup>7</sup> The remaining landowner refused to do so after learning that this additional "donation" was contrary to FRPP regulations. Table 1 shows the critical dates when the matching funds were paid and recovered by the trust. Details of our interviews with the landowners follow the table.

**Table 1: Schedule of Matching Funds Paid and Recovered by the Trust**

Easement <sup>3</sup>	NRCS CPA-230 Signed by the Trust	Easement Closing Date	Matching Funds Paid by Trust at Closing	Date Landowner Paid Trust	Matching Funds Recovered by the Trust from Landowners After Closing
No. 1	05/10/04	07/02/04	\$106,260 <sup>4</sup>	07/07/04	\$105,420
No. 2	08/30/04	09/22/04	\$37,500	10/05/04	\$37,500
No. 3	08/30/04	02/08/05	\$110,000	<sup>1</sup>	\$0
No. 4	09/29/04	02/23/05	\$59,147	<sup>2</sup>	\$59,147
<p>1. Landowner refused to pay the trust after he learned the request was contrary to the program regulations.</p> <p>2. Landowner could not locate documentation but confirmed payment was made.</p> <p>3. Although there were five easements approved for the FY 2003 cooperative agreement, we only included the circumstances for the four easement transactions that were completed after April 2004.</p> <p>4. NRCS paid \$210,000 (49.8 percent of the easement's appraised FMV) because of limited funds and the landowner donated \$105,420 (25 percent of the easement's appraised value); by deduction, the trust paid \$106,260 (25.2 percent of the easement appraised value) at closing..</p>					

- **Easement No. 1:** The trust's program director signed the form NRCS CPA-230 on May 10, 2004. The landowner stated that the program director told him prior to closing that the trust borrowed money from a bank in Georgia to meet its 25 percent matching fund requirement; therefore, he needed to donate to the trust an additional 25 percent of the easement's value as soon as possible after closing so the trust could repay the bank.

The landowner believed that he was obligated to make the additional donation because of the verbal agreement he entered into with the trust and his understanding that the second donation was a program requirement. He also added that "he would not have donated an additional \$105,420 if he did not believe that it was a program requirement". After having several conversations with the program director, the landowner made a second donation to the trust in the amount of \$105,420 equal to 25 percent of easement value on July 7, 2004, 5 days after closing.

- **Easement No. 2:** The trust's conservation planner signed the form NRCS CPA-230 on August 30, 2004. The landowner informed us that

<sup>7</sup> In two of four cases, the landowner paid the exact amount of the trust's required 25-percent share. In the third case, the trust paid \$840 more (\$106,260) than the landowner's second donation (\$105,420) because NRCS paid 49.8 percent instead of 50 percent due to limited funds left.

on several occasions, including the day of closing on September 22, 2004, the trust's program director told her that if she did not abide by their agreement the trust would not go through with the transaction. The landowner wrote a letter of complaint to NRCS about being pressured to make a second donation on September 24, 2004. In the letter, the landowner quoted the trust's program director as saying the trust had no intention of contributing its share of the matching funds. On October 5, 2004, the landowner wrote a check of \$37,500 to the trust as a second donation. The trust repaid \$37,500 to the landowner after it was informed by NRCS of the landowner's complaint. However, after she received the reimbursement check from the trust, the landowner stated that the trust's program director called her several times and asked her to return the money.

She eventually paid the trust \$37,500 equal to 25 percent of easement value on December 4, 2004, because "the trust expected it."

- **Easement No. 3:** The trust's conservation planner signed the form NRCS CPA-230 on August 30, 2004. Prior to the closing, the landowner stated that he was reminded by the trust's program director of the second donation. The total cost of the easement was \$440,000 with about \$ 330,000<sup>8</sup> due to the landowner after closing (landowner donated 25 percent of easement value equal to \$110,000 at closing). The trust brought a check in the amount of \$110,000 (its 25-percent share of the easement's FMV) and NRCS wired \$220,000 (50 percent of the easement's FMV) to the escrow account for closing. At closing, the landowner stated that he received two separate checks from the closing attorney, one check for \$110,000, and another check for about \$217,000, then was approached by the trust program director and asked to hand over the endorsed check of \$110,000 as a second donation. When he refused, he said that the trust program director threatened him and became verbally abusive. The landowner wrote a letter to NRCS on February 9, 2005, complaining of the treatment that he received from the trust.
- **Easement No. 4:** The trust's program director signed the form NRCS CPA-230 on September 29, 2004. According to the landowner, the trust's program director informed him that the trust was short of money and was unable to fulfill its matching requirement. The landowner was told that if he wanted to participate in the program, he would have to cover the trust for its portion of the matching requirement. The landowner told us that he agreed to the arrangement because he thought that "50 percent of something is better than 50 percent of

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<sup>8</sup> The amount due to the landowner was \$327,156.50. Although the cooperative agreement specified that the trust was required to pay the closing cost of \$2,843.50, in this case the trust required the landowner to pay it.

nothing.” He stated that he paid the trust \$59,147 equal to 25 percent of easement value after closing.

When we interviewed the trust’s program director, he confirmed that he told landowners before accepting their application that they would receive approximately 50 percent of the easement’s value. He stated that he was unaware of the pertinent program regulations at the time he informed the landowners of their funding requirement. However, after NRCS reiterated the matching fund requirement in April 2004 and the trust’s program director and conservation planner signed the written form NRCS CPA-230 certifying that the entity’s share of matching funds did not come from additional donations, payments, loans, or fees made by or charged to the landowners, the program director still asked and pressured the landowners to comply with the term of the verbal agreement.

According to the FRPP regulations:<sup>9</sup>

*...A scheme or device includes, but is not limited to, coercion, fraud, misrepresentation, depriving any other person or entity of payments for easements for the purpose of obtaining a payment to which a person would otherwise not be entitled.*

The trust appeared to circumvent NRCS’ control by certifying that its matching funds did not come from landowners when, in fact, the funds did. The trust was notified by NRCS in April 2004 that it could not use landowner contributions to fulfill the trust’s matching fund requirement. Yet in three of the four subsequent transactions, the trust recovered its 25 percent matching funds from additional landowner “donations” made after closing. To ensure that NRCS approved the transactions and paid 50 percent of the easements’ FMV, trust officials certified, in writing, that they complied with NRCS regulations regarding the matching fund requirements. However, the trust did not disclose to NRCS that it had obtained prior verbal commitments from landowners to contribute 50 percent of their easement’s FMV (25 percent at closing and 25 percent after closing), and appeared to conceal in settlement documents that landowners would be returning the trust’s matching funds back to the trust in the form of a “donation” shortly after closing. In our opinion, the trust actions constituted a scheme or device to circumvent FRPP requirements.

In addition to the five easements acquired in the FY 2003 cooperative agreement discussed above, NRCS obligated approximately \$1 million dollars for the trust to purchase three additional conservation easements under its FY 2004 cooperative agreement. The Alabama SO is placing these transactions on hold until the NRCS’ NO decides to continue or not with the

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<sup>9</sup> 7 CFR part 1491.32, effective May 16, 2003

trust as a cooperating entity under FRPP based on the results of the OIG audit. In preliminary discussions with Alabama SO personnel, we were told that the trust had made the same questionable arrangements with the landowners under the FY 2004 agreement. Alabama SO personnel believe that the circumstances presented to them may lead the agency to transfer or deobligate the FY 2004 funds. Table 2 shows pertinent information for the easement purchases proposed under the FY 2004 agreement.

**Table 2: Schedule of Pending FRPP Easements -  
FY 2004 cooperative agreement**

<b>2004 Rank</b>	<b>FRPP Acres</b>	<b>Easement Value</b>	<b>NRCS Portion</b>
1	133	\$747,000	\$373,000
2	61	\$1,279,400	\$350,000
3	185	\$596,876	\$298,438
<b>Total</b>			<b>\$1,021,438</b>

In January 2006, the NRCS Chief received two letters from the landowners supporting the trust's operations and its policy of requiring landowners to donate the matching funds back to the trust after closing. The first letter was from the owner of the first acquired easement, in which the trust charged an "easement fee" equal to 25 percent of the easement's FMV. This landowner stated that he strongly supported the work done by the trust and would have donated additional money to the trust regardless. The second letter was from a landowner who paid the trust 25 percent of the easement's value after closing. The landowner stated that even though he could have used more money to pay his existing farm debt, he donated the money to the trust freely because he would have gotten nothing if he had not followed the course he took.

Landowner donations are allowed and welcomed under FRPP regulations. However, if the landowners were willing to donate 50 percent of the FMV of their easements and had, in fact, agreed to do so, that information should have been disclosed to NRCS prior to closing. The amounts contributed by NRCS would then have been reduced to half of the easement's *purchase price* (i.e., price net of total landowner donations), which in these two cases equal to 50 percent of the easements' appraised FMV.

We also disagree with the use of the term "donation" since, according to the interviewed landowners, the additional "donation" was part of the negotiated conservation easement purchase price and a prerequisite for the landowners' participation in FRPP through the trust.



### **Trust Did Not Comply with the Program's Appraisal Requirements**

In the FY 2003 cooperative agreement with the trust, NRCS agreed to provide matching funds up to 50 percent of the appraised FMV of the conservation easements. As the cooperating entity responsible for administering FRPP in Alabama, the trust was responsible for ensuring that appraisals complied with the requirements established in the cooperative agreement and in NRCS regulations and with applicable appraisal standards. We found serious deficiencies in all five appraisals supporting the FY 2003 conservation easement purchases: incorrect appraisal methodologies, unsupported and inaccurate assumptions in the appraisals, unqualified appraisers, incorrect appraisal reports, ineffective administrative reviews of the appraisals, no technical reviews of the appraisals. Instead of ensuring that the appraisals were properly and accurately completed, the land trust's program director stated that he relied on NRCS, the appraisers, and the landowners to do so. The program director also appeared unaware of some of the program's appraisal requirements. As a result, the appraisals provided by the trust to NRCS and used to support Federal matching funds totaling \$1 million were questionable and potentially overstated.

Under NRCS program regulations, directives, and the terms of the cooperative agreement, cooperating entities are responsible for identifying the FMV of easements through appraisal reports done in accordance with USPAP or UASFLA.<sup>10</sup> Program appraisal requirements also include:

- Estimating the value of the conservation easement as the difference between the FMV of the entire property before the easement and the FMV of the entire property after the easement.<sup>11</sup>
- Requiring use of State-certified or State-licensed general real property appraisers.<sup>12</sup>
- Conducting technical or administrative reviews of all completed appraisal reports.<sup>13</sup>

Before entering into the cooperative agreement, the cooperating entity must attest to NRCS its appraisal policies and practices. In the case of the trust, it stated that it followed IRS appraisal rules and the standards and practices of the Land Trust Alliance.<sup>14</sup> These standards and practices include (1) having staff with the appropriate training and experience for their responsibilities, (2) determining that conservation projects meet applicable Federal or State

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<sup>10</sup> 7 CFR part 1491.4(e), effective May 16, 2003; NRCS Directives, part 519, subpart G 519.62 (D), amended April 2004; and Cooperative Agreement No. 73-4101-3-01, section VII-B.10.

<sup>11</sup> NRCS Directives, part 519, subpart G 519.62(D).

<sup>12</sup> Ibid 519.62(A).

<sup>13</sup> Ibid 519.62 (F)(G).

<sup>14</sup> These standards and practices are the ethical and technical guidelines for the responsible operation of a land trust.

requirements, and (3) ensuring appraisals are done by qualified appraisers in accordance with USPAP. Given that the FRPP easement valuation guidelines specified compliance with USPAP or UASFLA, the trust told NRCS its easement appraisals would be done in conformance with USPAP.

Under its FY 2003 cooperative agreement, the trust submitted five appraisal reports to NRCS during its acquisition of the conservation easements discussed above. We reviewed the appraisal reports and determined that they did not conform to USPAP and other appraisal requirements specified in program regulations, agency directives, and the cooperative agreement. Specifically, we found that the trust provided appraisals that (1) did not value easements using appropriate “before” and “after” values, (2) estimated easement values based on speculative and unsupported assumptions, (3) were prepared by appraisers lacking the required qualifications, (4) did not conform to appraisal development and reporting guidelines, and (5) had not been effectively reviewed by the trust.

a. Appraisal Reports Did Not Reflect Appropriate Before and After Values. None of the five appraisal reports provided by the trust to NRCS used the appropriate “before and after” easement valuation technique required by program regulations, agency directives, and the terms of the cooperative agreement.

Under the terms of the cooperative agreement, the trust was responsible for ensuring that the consideration paid to any landowner for the conveyance of any conservation easement was not more than the FMV of the land conveyed.<sup>15</sup> Program regulations and NRCS directives<sup>16</sup> specified that the FMV of the easements had to be determined using the “before” and “after” appraisal technique:

“In valuing conservation easements, the appraiser estimates both the fair market value of the whole property before the easement acquisition and the fair market value of the remainder property after the conservation easement has been imposed. The difference between these two values is deemed the value of the conservation easement.”

For example, if the value of the whole property before the easement was \$1 million, and the value of the whole property after the easement was \$400,000, compensation for the easement would be \$600,000.

Instead of estimating easement compensation as the difference between the before and the after values on the landowner’s entire property, each of the

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<sup>15</sup> Cooperative Agreement No. 73-4101-3-01, section VII-B.10.

<sup>16</sup> 7 CFR part 1491.3 and part 519, subpart G, 519.62(D), respectively.

five appraisal reports only estimated the before and the after values of the proposed easement areas. Since the easement's impact on a land's value is highest on the encumbered portion of the land, this practice heightened the difference between the before and the after values and potentially inflated each of the five easement values.

For example, in one transaction, the landowner's property consisted of 1,125 acres with a 160-acre conservation easement. Rather than estimating the easement's value as the difference between the before and after values of the 1,125-acre property, the appraiser only estimated the before and after values of the 160-acre easement area. The appraiser calculated the before value of the 160-acre portion based on its hypothetical development into a 50-lot subdivision—the land's highest possible development intensity and a use that would have been difficult to support had the appraiser analyzed the before uses of the 1,125-acre property as a whole. Conversely, the appraiser's value estimate of the 160 acres in its after condition reflected the land's lowest possible development potential, “nondevelopable open space,” instead of its value as prime cropland associated with an operating farm. Based on this incorrect approach, the appraiser estimated the easement area's value at \$440,000.

Had the easement appraisal been done correctly—estimating the financial impact of a 160-acre easement on the entire 1,125-acre property—the landowner's compensation might have been significantly less. At a minimum, the value of the property in its after condition would have been greater; the market-value of an operating farm with prime cropland rather than just easement encumbered “open space.” Similar situations applied to the other four easement appraisals we examined for FY 2003, raising questions about the credibility of their \$2.4 million total valuation.

b. Easement Values Were Based on Speculative and Unsupported Assumptions. All five of the easement appraisals failed to conform to USPAP's appraisal development standard because the estimated values were based on speculative, unsupported and misleading assumptions and analysis. NRCS regulations, directives, and the cooperative agreement<sup>17</sup> between the agency and the trust specified that all program appraisals had to conform to USPAP.

Each of the five easement appraisal reports used the development approach to estimate the land's “before” value. The development approach is a method of estimating a property's value under the assumption that undeveloped acreage can be subdivided into lots. This highly complex method of valuation involves, among other things, the creation of detailed development plans, the scheduling of all revenue and expenses, and discounting net income streams

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<sup>17</sup> 7 CFR part 1491.4(e); NRCS Directive part 519, subpart G 519.62(a); and Cooperative Agreement No. 73-4101-3-01, section VII-B.10.

to a present value. The discounted sum is said to represent the present market value of the raw land. In addition, appraisers electing to use the development approach must also show that there is a market demand for the hypothetical subdivision. The mere fact that county zoning permits a landowner to subdivide property into smaller parcels does not mean it is financially feasible to do so.

When using the development method, USPAP Standards Rule 1-3(a) requires that the appraiser identify and analyze economic supply and demand, the physical adaptability of the real estate and market area trends. USPAP Standards Rule 1-4(h) requires that the evidence to be examined and maintained include such items as contractors' estimates relating to cost and the time required to complete construction, market and feasibility studies, operating cost data, and the history of recently completed similar developments. Appraisers must also examine and have available for future examination plans and other documentation sufficient to identify the scope and character of the proposed improvements, evidence indicating the probable time of completion of the proposed improvements, and reasonably clear and appropriate evidence supporting development costs, anticipated earnings, occupancy projections, and the anticipated competition at the time of completion. Finally, USPAP Standards Rule 2-1 requires that appraisal reports be set forth in a manner that is not misleading.

We determined that the value conclusions cited in four of the five appraisal reports were unreliable, misleading, and contrary to the USPAP standards above because the appraiser provided no support for the economic feasibility or market demand of the hypothetical subdivisions upon which the values were predicated. For example, the four appraisals did not contain:

- Evidence that the proposed subdivision was needed or likely to be needed in the near future,
- Identification of the number of lots proposed for development, lot sizes, or lot locations,
- Analysis of comparable finished lots and selling prices,
- Discussion of the direct and indirect costs of subdivision development such as surveying, permitting, utilities, project overhead, and supervision,
- Discussion of competing residential lot inventory necessary to estimate market demand and absorption rates.

The fifth appraisal that used the development approach did contain detailed cost estimates. However, we concluded that this appraisal was also contrary

to USPAP requirements because the appraiser did not adequately show that development of the hypothetical 50-lot subdivision used to estimate the easement's "before" value was feasible. In fact, we determined that neighborhood hostility might have precluded any such development. According to staff in the county's planning department, residents living in the traditionally rural area would have expressed "significant opposition" to any subdivision proposal.

The subdivision analysis technique is a complicated process that lends itself to misleading value estimates if not done correctly. This analysis can also be easily manipulated to provide high appraised values. Given the lack of support and analysis in the five appraisals discussed above, we believe it is likely that these appraised values were overstated.

c. Appraisers Lacked Required Qualifications. Four of the five appraisal reports were completed by an appraiser who lacked the required appraisal certifications. NRCS regulations and agency directives specify that all easement appraisals must be conducted by State-certified or State-licensed general real property appraisers.<sup>18</sup>

"Prior to FRPP fund disbursement, the value of the conservation easement must be appraised. Appraisals shall be completed and signed by a State-certified or licensed general appraiser."

Only one of the five FRPP easement appraisal reports used by the trust met this requirement. The remaining four appraisal reports, totaling about \$2 million, were completed by a certified residential appraiser. Unlike certified general appraisers who are qualified to appraise all types of real property regardless of transaction value or complexity, certified residential appraisers are only qualified to appraise residential properties consisting of one to four units. Use of a residential appraiser to value conservation easements also violated USPAP's Competency Rule which required that appraisers have the knowledge and experience necessary to perform appraisal assignments competently.

Ensuring that contracted appraisers are qualified for the assignment is a critical part of a cooperating entity's control over the easement valuation process because appraisals done by unqualified individuals are likely to include errors, omissions, and unreliable values as evidenced by the numerous deficiencies discussed in this report. Shortly after completing the easement appraisals used by the trust, this particular residential appraiser was subjected to disciplinary action by the Alabama Real Estate Appraisers Board in connection with a different appraisal that contained significant calculation errors resulting in a misleading report.

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<sup>18</sup> 7 CFR 1491.4(e), effective May 16, 2003, and FRPP Manual, subpart G 519.62(B), amended April 2004.

d. Form and Content of Appraisal Reports Were Inappropriate. Four of the five appraisals provided by the trust were restricted use reports prohibited under USPAP's reporting standards. NRCS regulations, agency directives, and the cooperative agreement required that the easement appraisals be done in conformance with USPAP standards.<sup>19</sup>

USPAP establishes rules and guidelines for developing and reporting appraisals. These guidelines are intended to ensure that all appraisals contain sufficient information to enable the intended users to understand the report properly. Under USPAP standards all appraisals must be reported in one of three formats.<sup>20</sup>

- Self-Contained Appraisal Report:<sup>21</sup> This report includes full analysis and support for value conclusions. The most detailed of the three report formats, it can be relied upon by attorneys, lenders, CPA's, or other financial professionals.
- Summary Appraisal Report:<sup>22</sup> This report contains less information than a self-contained appraisal report, but more information than a restricted use report. Market conditions, analysis, opinions and value conclusions are summarized. Summary reports may be used for estate planning or to fill accounting needs.
- Restricted-Use Appraisal Report:<sup>23</sup> This is the briefest written appraisal report. It provides no information on how the value conclusion was determined. It is simply a bottom-line indication of the value of the property. Typically, this report is used for real estate listings or to establish values for estate planning.

Four of the five easement appraisal reports were restricted use reports that named the landowner as the client. Because such reports contain only minimal information, under USPAP Standards Rule 2-2 and USPAP Advisory Opinions 11 and 12, restricted use reports are limited to client use only. USPAP standards prohibit such reports from being used by third parties like the trust and NRCS because the reports do not contain enough information to be properly understood. The trust should not have relied upon restricted use reports as the basis for receiving nearly \$1 million in Federal matching funds because the appraisals lacked the information the trust needed to determine whether the easement values were based on appropriate, complete, and accurate assumptions and analysis.

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<sup>19</sup> 7 CFR part 1491.4(e); NRCS Directive part 519, subpart G 519.62(a); and Cooperative Agreement No.73-4101-3-01, section VII-B.10.

<sup>20</sup> USPAP Standards Rule 2-2.

<sup>21</sup> Ibid 2-2(a).

<sup>22</sup> Ibid 2-2(b).

<sup>23</sup> Ibid 2-2(c).

e. Appraisal Reports Were Not Subjected to Effective Reviews. The trust administratively reviewed all five of the easement appraisals but did not identify and correct the appraisal deficiencies discussed above. The trust did not submit any of the five appraisals to a technical review by a qualified appraiser.

The administrative appraisal review process consists of staff examining easement appraisals for missing elements, unclear analysis, inconsistency, or inappropriate assumptions. Technical appraisal reviews, on the other hand, are performed by qualified appraisers acting as reviewers who validate whether the initial appraisal report is technically complete and accurate.

NRCS Directives, Part 519, Subpart G 519.62(E), requires that cooperating entities conduct administrative reviews on at least 90 percent of all appraisals and technical reviews on the remaining ten percent. Prior to entering into the cooperative agreement with NRCS, the trust told agency staff that it would administratively review 90 percent of the easement appraisals and submit the remaining 10 percent to technical appraisal reviews.

The trust administratively reviewed each of the five appraisal reports processed under the 2003 cooperative agreement. According to the trust program director, the trust staff possessed a general understanding of the easement appraisal process gained from “on the job training” and periodic seminars. However, we concluded that the trust’s administrative review process was ineffective since the trust failed to identify any of the significant appraisal deficiencies discussed above.

Given the ineffectiveness of the trust’s administrative review, the technical appraisal review process, which the trust had previously agreed to conduct on 10 percent of the easement appraisals, was the only remaining control over the accuracy of the appraisal reports’ contents. However, the trust did not subject any of the 2003 appraisal reports to a technical appraisal review. According to the trust program director, 2003 was the first year the trust participated in the FRPP and certain functions “went undone.” He explained that the trust intended to meet NRCS’ 10 percent review requirement by technically reviewing appraisals completed under the 2004 cooperative agreement. As a consequence, the trust received about \$1 million in Federal matching funds based on five appraisal reports that had not been subjected to any sort of meaningful secondary review to ensure the values met appraisal standards and NRCS requirements.

When questioned about the appraisal deficiencies discussed in this report, the trust’s program director told us that the trust relied on the landowners, NRCS, and the appraisers to ensure the easement values were accurate and in compliance with the program’s valuation requirements. However, sections VII-B.1 and VII-B-10 of the cooperative agreement between the trust and NRCS specified that the trust was responsible for determining the FMV of

program easements, in accordance with USPAP, and for informing landowners of that value. We conclude that the trust's failure to provide appraisal reports that conformed to the agency's requirements constitutes material noncompliance with the provisions of the cooperative agreement.

### **Summary**

It is our opinion that the trust employed a scheme and device to circumvent FRPP matching fund requirements in order to acquire title to easements without a financial contribution, and to obtain Federal matching funds to which the trust was not entitled. FRPP regulation (7 CFR part 1491.32) states that:

*“If it is determined...that a cooperating entity has employed a scheme or device to defeat the purposes of this part, any part of any program payment otherwise due or paid such a cooperating entity during the applicable period may be withheld or be required to be refunded with interest, thereon, as determined appropriate...”*

We also concluded that the trust materially failed to comply with the appraisal provisions of the cooperative agreement. Under Sections VIII-D and VIII-K of that agreement, the Department can terminate the agreement with the cooperating entity and wholly or partially recapture Federal funds if the Department determines that the recipient of program funds materially failed to comply with the terms of the cooperative agreement.

The trust's circumvention of the program's matching fund provisions and appraisal requirements seriously impaired the integrity of FRPP in Alabama. Although the five easement transactions discussed in this report have already been completed and closed, the trust entered into a FY 2004 cooperative agreement (No. 73-4101-4-01) with NRCS to purchase three additional easements that are still pending. At a minimum, we recommend that NRCS terminate its current FY 2004 cooperative agreement with the trust and deobligate all Federal matching funds associated with the FY 2004 easement acquisitions. We also recommend that NRCS consult with OGC on other legal remedies that can be pursued by NRCS as a result of the trust's actions relating to the FY 2003 easement transactions.

### **Recommendation 1**

Determine whether the trust's actions constitute a scheme or device and/or material noncompliance with the appraisal requirements to defeat the purposes of FRPP and the agency's regulations. If so, terminate FY 2004 cooperative agreement with the trust.



**Agency Response.** NRCS has determined that the trust demonstrated actions that constitute material noncompliance. Therefore, NRCS has terminated all FRPP cooperative agreements executed between NRCS and the trust.

**OIG Position.** We accept NRCS management decision on this recommendation.

## **Recommendation 2**

If NRCS determines the trust's actions constituted a scheme or device and/or material noncompliance, deobligate \$1,021,438, the amount authorized for the Alabama FRPP under the FY 2004 cooperative agreement with the trust.

**Agency Response.** NRCS deobligated \$1,021,438, the amount authorized for the Alabama FRPP under the FY 2004 cooperative agreement with the trust.

**OIG Position.** We accept NRCS management decision on this recommendation.

## **Recommendation 3**

Consult with OGC on other legal remedies available to NRCS concerning trust's material noncompliance with the appraisal requirements for the FY 2003 easement transactions.

**Agency Response.** NRCS is consulting with OGC to consider legal remedies available concerning the Trust's material noncompliance with the appraisal requirements for the FY 2003 easement transactions.

**OIG Position.** We accept NRCS management decision on this recommendation.

# ***Scope and Methodology***

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The purpose of our review was to (1) determine if the trust adhered to the program's matching fund requirements, (2) determine if appraisals used to calculate the FMV of the program easement's were done in compliance with applicable laws, regulations and generally accepted appraisal practice, and (3) identify and report on any other issues that developed during the course of our review.

To accomplish our objectives, we performed fieldwork at NRCS' NO in Washington, D.C., and NRCS' State office in Auburn, Alabama. We also interviewed staff at the Chattowah Open Land Trust, doing business as the Alabama Land Trust, in Piedmont, Alabama; five program participants located in various cities in Alabama; and a Rural Development State office appraiser. Fieldwork was performed between October 2005 and January 2006.

We selected for review all conservation easements processed under the FY 2003 cooperative agreement between the trust and NRCS, dated July 17, 2003 (Agreement No. 73-4101-3-01). This agreement provided about \$1.2 million of Federal funds for the trust to acquire five conservation easements.

In developing the findings in this report, we performed the following steps and procedures:

- Obtained and reviewed all applicable laws, regulations, and relevant procedures to become familiar with the program.
- Interviewed NRCS' NO staff, such as the Easement Program Branch Chief, the acting Program Chief, and the agency's Chief Appraiser, to obtain background information on the program and the appraisal process.
- Reviewed the NRCS NO correspondence file regarding the matching fund issues in Alabama to obtain an understanding of the program issues.
- Interviewed attorneys from USDA's OGC to obtain clarification on the legality of program transactions in Alabama.
- Interviewed Alabama State NRCS office personnel, such as the State resource conservationist and the assistant State conservationist, to obtain background information on the program in Alabama and the ongoing concern with the trust.
- Reviewed the SO files for each landowner participating in the program in FY 2003 to obtain an understanding of the conservation easement acquisition process.
- Interviewed all five landowners who participated in the program in FY 2003 to determine if the funding requirement was met.

- Interviewed the trust's executive director and program director to obtain information on its implementation of the program in Alabama.
- Reviewed trust's case files for each landowner who participated in the FY 2003 program to obtain additional information on each easement acquisition.
- Analyzed the appraisal reports prepared for each landowner to determine if the values were estimated in accordance with NRCS' regulations and applicable appraisal standards.
- Consulted with a Rural Development State office appraiser in Alabama who functioned as the technical review appraiser for NRCS' Alabama SO, to obtain an expert opinion on the appraisal techniques and value conclusions cited in each of the five reviewed appraisal reports.

Our audit was conducted in accordance with generally accepted government auditing standards.

## ***Exhibit A*** – Summary of Monetary Results

Exhibit A – Page 1 of 1

<b>Recommendation Number</b>	<b>Description</b>	<b>Amount</b>	<b>Category</b>
2	Trust circumvented FRPP matching fund provisions and violated appraisal requirements.	\$1,021,438	Deobligation
<b>Total</b>		\$1,021,438	

# Exhibit B – Agency Response

Exhibit B – Page 1 of 2

## United States Department of Agriculture



Natural Resources Conservation Service  
P.O. Box 2890  
Washington, D.C. 20013

AUG 23 2006

SUBJECT: OIG Audit Report No. 10099-5-SF, Farm and Ranch  
Lands Protection Program (FRPP) in Alabama

TO: Ernest M. Hayashi  
Director  
Farm and Foreign Agricultural Division  
Office of the Inspector General

This memorandum transmits the Natural Resources Conservation Service's (NRCS) response to the Office of the Inspector General's (OIG) draft report, OIG 10099-5-SF, Farm and Ranch Lands Protection Program (FRPP) in Alabama.

### OIG Recommendation 1.

Determine whether the trust's actions constitute a scheme or device and/or material noncompliance with the appraisal requirements to defeat the purposes of FRPP and the Agency's regulations. If so, terminate fiscal year (FY) 2004 cooperative agreement with the trust.

#### NRCS Response:

NRCS has determined that the Chattowah Open Land Trust's (d/b/a Alabama Land Trust; hereinafter referred to as "the Trust") demonstrated actions that constitutes material noncompliance. Therefore, NRCS has terminated all FRPP cooperative agreements executed between NRCS and the Trust.

This action was taken in order to protect the best interests of the United States, as well as the landowners that the Department of Agriculture serves.

### OIG Recommendation 2.

If NRCS determines the Trust's actions constituted scheme or device and/or material noncompliance, deobligate \$1,021,438, the amount authorized for the Alabama FRPP under the FY 2004 cooperative agreement with the Trust.

#### NRCS Response:

NRCS deobligated \$1,021,438, the amount authorized for the Alabama FRPP under the FY 2004 cooperative agreement with the Trust.

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## ***Exhibit B*** – Agency Response

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Exhibit B – Page 2 of 2

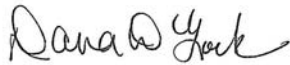
Page 2

OIG Recommendation 3.

Consult with the Office of the General Counsel (OGC) on other legal remedies available to NRCS concerning the Trust's material noncompliance with the appraisal requirements for the FY 2003 easement transactions.

NRCS Response:

NRCS is consulting with OGC to consider legal remedies available concerning the Trust's material noncompliance with the appraisal requirements for the FY 2003 easement transactions.



DANA D. YORK  
Acting Chief

cc:

Stuart Shelton, Lead Attorney, Office of the General Counsel, Washington, D.C.  
Thomas W. Christensen, Deputy Chief for Programs, NRCS, Washington, D.C.  
Daniel Runnels, Director, Operations Management and Oversight Division, NRCS,  
Washington, D.C.  
Robin E. Heard, Director, Easement Programs Division, NRCS, Washington, D.C.

Informational copies of this report have been distributed to:

Chief, NRCS, Attn: Director, OMOD	(10)
Office of the Chief Financial Officer	
Director, Planning and Accountability Division	(1)
Government Accountability Office	(2)